IS THE HIGH PRICE OF COTTON THE RESULT OF MANIPULATION?

BY DANIEL J. SULLY.

BEFORE entering upon a discussion of this question, it is perhaps necessary to define the limits of speculation and manipulation in a general way. Ever since the fields of commerce and finance have broadened out—and even before, for that matter—speculation has been an element in business life. It has been quick to take advantage of conditions on one side or the other. But no scheme of speculation that lacked a sound basis for operation has been successful for more than a limited period. Speculation causes fluctuations, but does not long affect the general trend due to fundamental causes. With regard to the present price of cotton, no plan of manipulation, unless financed on a scale sufficient to take over a large portion of the crop, could have brought and kept prices at the present average level. There are times, of course, when acute conditions—such as a short crop, a small supply toward the end of a season and aggressive manipulation backed by large capital—have resulted in "corners" and thus kept up prices. But "corners" could not be planned and executed at the outset of a cotton year. No clique of speculators could be found with money enough and daring enough to attempt such a thing. They could not see far enough into the future, and the game would not be worth the candle.

If I were to be asked the bald question whether the cotton market had been the object of manipulation this year, I would say: "Yes; on both sides." One clique has believed cotton to be too low; another has taken the position that the price was too high. And the battle has been waged on the issues thus drawn. It has been a hard-fought struggle. There has been some bitterness. There has been money on both sides. If anything, the

advantage so far as money is concerned has rested with those who have tried to depress the price of the cotton. The powerful elements arrayed on the side of the mill interests of New England, Great Britain and the Continent, as a matter of course, always have insisted that it was to their financial welfare to have cheap raw material. On the other side has been the South just emerging from four decades of poverty, and for the first time able to take up the gage for King Cotton. Commission-houses and brokers have been about equally divided.

At the outset, I take the position that the high price of cotton has been due to unusual but entirely natural causes, and is not the result of manipulation.

Few persons realize the great importance of the cotton industry in the United States, when considered in its entirety. Cotton is the only fibre that grows already prepared for the spinner, and the only farm product of which the grower at first hand consumes no part. Its cheapness, ease of production and quality pre-eminently fit it to rank as the principal textile product of the world. Since its introduction, there has been a continuous increase in its use to the exclusion of other textile fabrics. New markets have been opened, and this, with the growing demand in old markets, resulting from increasing population and better habits of living, has led to a rapidly increasing demand for the staple and its manufactured products.

The world's annual consumption of cotton is approximately 14,000,000 bales. Of this amount, America furnishes by far the greater portion, and the staple grown in the Southern States is the world's great commercial necessity, so far as the textile industry is concerned. Egypt grows a long staple cotton that is used in the finer grades of goods. India produces a short staple that is used only in the coarsest fabrics. The American product is the intermediate grade, and is suited to nearly all classes of goods.

The cultivation of cotton in the United States probably began in 1607, when there is a record of seeds having been introduced. Very little was grown, however, until the invention of the cotton-gin by Eli Whitney in 1793, and from this invention, only a little more than a century ago, dates the birth of the cotton industry. In 1800, the product of the South was 120,000 bales. In 1859-60, the output had increased to nearly 5,000,000 bales, and in 1897 and 1898 the yield passed the mark of 11,000,000 bales. During

the last decade, we have exported some 30,000,000,000 pounds of cotton, valued at about two and one-half billions of dollars. This enormous exportation, payable in gold, is of the greatest aid to this country in preserving the financial parity between the United States and Europe. As an illustration, during November, 1903, according to figures compiled by the Bureau of Statistics at Washington, cotton to the value of $67,964,774 was exported. The total value of all farm products exported during the same period is $105,809,986. This was the largest amount of cotton ever sent abroad from the United States during a single month, and is said to have been the cause of the collapse of the foreign exchange market during the month of November. The official figures for December have not been given out at the present writing, but in money value they probably will exceed those of November.

According to reports of the twelfth census, in value of the manufactured products, the textiles in 1900 stood third in the United States, being exceeded only by the value of food and kindred products and of iron and steel and their products. The total value of food and kindred products in 1900 is given as over $2,200,000,000; of iron and steel products as over $1,700,000,000. The value of manufactured textile products is estimated at $1,-637,484,484. This includes products from wool and flax, but the cotton manufactures stand easily at the head of the textile industries proper. These figures are given to show the important position that cotton holds in the world's industries of to-day.

Strange as it may seem, the underlying causes of the present high price of cotton had their origin during the period of enormous crops and low prices in 1897-98 and 1898-99. The crops for both of these years were more than 11,000,000 bales, and the price of cotton fell to five and six cents a pound. There was great fear of overproduction, and every means was taken, by conventions of public-spirited men and by a campaign of education through the public press, to induce Southern farmers to plant more extensively of other crops, and decrease the amount of cotton produced. As a result of the low price of cotton and the enormous production, new mills started up on the Continent and in the Southern States. Within the last ten years, the mills of the world have increased their capacity by more than 17,000,000 spindles. In spite of the talk of curtailment that has been going

the rounds for the last year, the South has added 817,826 spindles and 16,313 looms, representing an investment of about $16,000,000, to its mill facilities.

Although the exact figures are not obtainable, the number of the world's spindles may be placed approximately at 109,000,000. Mills have sprung up everywhere throughout the South. Aside from the bare increase in the number of spindles, improved machinery has made possible larger consumption of raw material.

But this period of "bumper" crops and low prices did more than increase the manufacturing capacity. It created new outlets and new factors in consumption. People, the world over, were educated to new uses for cotton, and thus new needs sprang up. Cotton to-day enters into the manufacture of more articles than any other agricultural product. Its low price caused the staple to be used for things never before dreamed of. People bought the articles into which it entered, not only because they were cheap, but also because they were liked. With new needs thus created, new machinery had to be installed to meet them.

Then followed a four years' period of comparatively short crops. The world's consumption had been based on an 11,000,000-bale American crop. One factor tended to keep the mills running at practically full capacity, in spite of the falling off of raw material. This factor was the estimates furnished by crop experts of standing. As these men were, to a certain extent, identified with mill interests they always made high estimates. In 1897-98 and 1898-99, their predictions were fulfilled in a measure, and they acquired reputations in consequence. When the years of short crops began, they still made large estimates, and with a double result: the price of cotton was depressed, an outcome greatly desired by the spinner, and the mills did not curtail consumption. For the last four years consumption has been running a race with supply, and consumption, in my opinion, is now ahead in the race. The crop grown in 1899 was 9,436,416 bales; that grown in 1900 was 10,383,422 bales; that grown in 1901 was 10,680,680 bales, and that in 1902 was 10,727,559 bales.

In these four years, mill stocks have been decreasing and the visible supply has dwindled. Last year, there was a shortage that produced a panic among mill-owners. The same charges of manipulation and "gambling" were made. In this connection, I

quote from the "Commercial Advertiser" of December 31, 1903, a review of conditions for the cotton year of 1902-03 by Henry G. Kittredge, of Boston, an experienced observer in the cotton world, whose interests undoubtedly lie with the mill elements:

"Notwithstanding all that may be said about the effects of the manœuvres of speculation, there never was a time within the memory of the present generation when the prices of cotton were more absolutely controlled and regulated by the laws of supply and demand. The speculative manipulation of the price of cotton was anathematized without considerate discrimination, as a malignant factor in disturbing the even tenor of the cotton goods trade. While speculation undoubtedly had a potent tendency to advance prices beyond their legitimate level, it, after all, simply exaggerated conditions which naturally existed in an unusual insufficiency in the quantity of raw material. The leaders of the speculative movements that illumined and emphasized actual conditions, were more astute and discerning than many of those who were conducting the manufacturing operations of the country, and who in the majority of instances took the stand that the market for the raw material was in an artificial state that would right itself in due course of time. Never was there exhibited more ignorance of the underlying causes and agencies that govern the course of trade than was shown during 1903 on the part of the manufacturing community."

As a result of the condition described by Mr. Kittredge, prices of cotton were high last year; and the South, which for three years previous had been able to pay off some of its debts, grew into a strong financial position. Southern sentiment was unanimous in the opinion that cotton for years had gone to the consumer of raw material too cheaply. Heretofore, the movement of the crop had been financed not by the South but by the money interests of the North and East, viz., the mill element. The powerful mill interests were able to dictate, to a large extent, when the crop should move and what it should sell for. A great deal of blame was attributed to the planter for rushing his cotton to market. In the main, he responded merely to demand. Southern bankers depended largely on New York for aid in carrying the merchants, who, in turn, carried the farmers on the crop-mortgage plan. At that time, the money interests and the manufacturing interests were practically the same; and, when the demand came from New York for a return of money, the Southern bankers called on the merchants, and the merchants in turn urged the planter to bring in his cotton. The whole system tended toward rushing the shipments and overloading the market, to the

gain of the spinner and the loss of the producer. The situation was made decidedly different by the high prices last year. If prices had not been high during the season which began September 1, 1903, the South would have held to its cotton, and then there would have been famine indeed. This year the movement has been rapid—probably the quickest on record; but cotton has come in response to high prices, and not with the usual stampede produced by lack of funds on the part of the grower.

In my opinion, four causes have tended to decrease the production of cotton: (1) seed deterioration; (2) soil exhaustion followed by poor tillage; (3) increase in pests such as the boll-weevil; (4) lack of acreage expansion.

I shall go into a little detail as to the first cause. Seed deterioration, in my opinion, is largely the result of the sale of the best seed to the cottonseed-oil mills. The agents of these mills go about through the country at the beginning of the season engaging their supplies, and they usually get the early seed, which is the most vigorous for reproduction. For this reason the farmer too often takes the later seed, which is of low vitality, and expects to produce a full crop from it. Of late, the South has been waking up to a realization of this error, and it is probable that the future will see a system of seed selection founded on some plan, such as inspection of seed at the gins either by the canvassers for the Census Bureau, or by some other method equally efficacious.

These are the causes that have contributed to the low crops of the last four years. This year there were additional complications. The crop was planted from four to six weeks late. The season was backward. March weather continued until April, and April weather continued until the end of May. In the latter part of the summer, there was September weather in August, and October weather in September. On the 19th of October, a killing frost, followed by continual cold weather, descended upon a large portion of the cotton belt, and the plant was cut off before it had reached maturity. From all over the South came reports that there would be practically no "top" crop. Surely, such a condition was enough to warn consumers of a short crop.

The crop, as I have stated, was unusually slow in growth. The supplies from the crop of 1902-03 were insufficient to run the mills until the end of August, even if equally distributed. But

before the close of the season many mills had to shut down completely. This condition was aggravated by the lateness of the new crop and the tardiness with which supplies were replenished.

This is the condition that faced the cotton industry on September 1: The supplies of raw material had declined to almost nothing; consumption had encroached upon manufactured reserves, until the stock of goods was at an extremely low ebb; it was possible for the mills to get along with a crop of between eleven or eleven and one-half million bales, if it were equably distributed and the mills confined their demands to a normal output.

But conservative spinners do not like to run on so close a margin. In addition to engaging their actual requirements, they felt it safer, even imperative, to obtain a surplus stock sufficient to restore the parity between raw material and the manufactured goods. So low had the supply of actual cotton sunk, that a crop of 12,000,000 bales of the American staple would undoubtedly have been absorbed, at prices in advance of those of former years, by the mill interests of the world. Consequently, the producer was justified in basing the price of cotton, not alone on the probable consumption, but also on the necessity under which the mills found themselves of acquiring a surplus stock.

Conditions were somewhat aggravated and made puzzling to the spinner by the usual flood of big crop prophecies with which the cotton world has been inundated. Many mills delayed purchasing, especially those of this country. The foreign spinner learned a lesson last year, and he attempted to engage his requirements while the season was still young. Cotton rose steadily in price, despite "bearish" predictions of a crop of from eleven to twelve millions of bales. Opposed to these inflated estimates were the low visible supply, the adverse weather conditions and the killing frost weeks before it usually appeared. The position of the "bulls" was materially strengthened by the government crop estimate issued on December 3, 1903, which placed the probable production at 9,962,059 bales. This caused another advance in prices. With occasional fluctuations, the market has maintained an upward trend, until the price has hovered around the fourteen-cents mark.

Of course, it has been contended by the "bear" element that the price of cotton is purely speculative. In support of their views, they have called attention to previous inaccuracies in gov-

ernment estimates. They have pointed out the unprecedentedly large movement which, in spite of the late date at which it began, has already approximated the figures of last year to January 1. Also they have predicted heavy curtailment on the part of the mills, thus decreasing the consumption and rendering possible the creation of a surplus of raw material.

On the other hand, the advocates of high prices maintain that the heavy receipts and rapid and large movement in the early part of the season are elements that cannot be gauged by the precedents of other years. The cause they assign for rapid movement is the high price of cotton which has called forth every bale in the hand of the farmer as soon as it could be picked, rushed to the gin and marketed, while it was known that the picking season was unusually favorable. This position is substantiated by the report of cotton ginned up to December 13, 1903, issued by the Census Bureau on January 5 of this year. In spite of the temptation of high prices and exceptionally good marketing facilities, the amount ginned was approximately 400,000 bales less than that ginned up to the corresponding date of 1902. If the cotton had been in the country, it would have been rushed to the gins, and the figures for the year before would have been surpassed. In addition to this official confirmation, reports up to the middle of January from all over the South are to the effect that from thirty to fifty per cent. less cotton is in the hands of the farmer than at the same time last year. The "bull" element has been insistent in predicting an early dropping off of the movement. Almost on the date set, the dwindling began; and the interior and port receipts for the early part of January showed a falling off of several thousand bales a day as compared with the figures of the corresponding dates last year. Certainly, from a statistical standpoint, the advocates of high prices have been in an exceptionally strong position.

A word as to curtailment. In the latter part of December, a mass-meeting of the Master Cotton Spinners' Association was held in Manchester, England. An effort was made to secure co-operation with the spinners' associations of other countries. The replies received and read at the meeting were very discouraging to the proponents of the plan. From Germany, Austria-Hungary and Italy came expressions of sympathy, but qualified by the statement that the mills of those countries had their output sold ahead

until the end of July. A prominent English cotton merchant is authority for the statement that the mills of Great Britain and the Continent are heavily engaged until the end of July, and these contracts are not covered by supplies in hand. On account of the high price of the staple, these mills cannot finance operations tending to the purchase of the actual cotton. Nor can they protect themselves by buying futures without danger of running the price to extravagant figures. Nor can general curtailment be resorted to in New England on account of future engagements. The hand-to-mouth policy of many of the American spinners was illustrated by the plight of several mills in January. Some expected consignments of cotton from the South failed to arrive on time, and the mills were forced to suspend. With this scarcity of raw material, assuredly, the holder is justified in demanding high prices for his cotton.

Here is another proof that the price is not speculative: In the latter part of December, 1903, complaints came from Fall River that, while the prices of futures on the New York Cotton Exchange were high, the actual cotton could not be obtained for those figures. Does this show that speculation has outrun demand? I hold that no price is speculative at which a commodity can be actually sold.

Another thing: New Orleans is the great "spot" cotton market of the world. New Orleans operators have every facility for judging the crop condition and crop movement better than any other set of operators in the world. Yet the prices at New Orleans, practically all season, have ruled from five to sixty points above those in New York. When one considers the question of freight alone, it is hard to see why the price of cotton in the heart of the cotton belt should be from twenty-five cents to three dollars a bale higher than it is at a point one thousand miles away.

Before leaving the subject of curtailment, I desire to make one point clear. Last year's consumption of American cotton was estimated by Thomas Ellison, Esq., of Liverpool, at 10,840,000 bales, falling 50,000 bales short of actual consumption in a year of radical curtailment. Last October, Mr. Ellison estimated the world's requirements of the American staple for this season at 10,870,000 bales. On November 10th, when cotton reached eleven cents a pound, he revised this estimate, and placed it at 10,500,-000 bales, at the same time predicting even smaller consumption

in the event of higher prices. If the government estimate of 9,962,000 bales is approximately correct, and it is being substantiated every day by the dwindling of the movement, it is probable that the mills will curtail consumption, but this curtailment will be compulsory, as a result of insufficient supplies, and not of voluntary action or high prices.

When foodstuffs are high the consumer complains, but he pays the price. Practically the same amount of beef, mutton, wheat and corn is consumed whether prices are high or low, especially when the supply is barely adequate to meet the demand. Admitting that cotton fabrics will not be so widely used for certain purposes as they were during the years of abnormally large crops and low prices, the fact remains that there is not enough raw material on hand, or in sight, or probably to come, to meet the contracts entered into by the mills with their consumers. But the analogy between foodstuffs and cotton is not complete. If beef and mutton get too high, people can resort to eating other meats or adopt a vegetarian diet. But the machinery of the mills demands the same regimen and cannot turn from cotton to wool or silk.

At the opening of the present year, rumors of impending hostilities between Russia and Japan had a depressing effect on the price of cotton. This influence, in my opinion, is largely sentimental. As far as raw material is concerned, the small portion that goes to China and Japan has been practically all bought or engaged. The small remnant of the crop that is unsold will be far from adequate to meet the demands of American and European consumers. As far as the exporting of cotton goods is concerned, we are assured of our usual market. The cargoes sent to the Orient will sail under the flags of neutral nations; and, even if Russia desired to interfere with the commerce of Japan, her naval strength would not be sufficient for the blockade of ports or a serious disturbance of ocean traffic. The trading treaty negotiated between this country and China early in January opens the ports of Mukden and Antung to American commerce and gives us entry into Manchuria. With Japan we are too friendly to fear an interruption of trade from that country as far as this Chinese province is concerned, and Russia would think twice before trifling with the rights insured to us under the treaty, even if she had not given her assent to its conditions.

In closing I desire to put the situation in brief form. The high price of cotton is caused by the increase in the world's consumption, which has encroached upon the reserves of manufactured stocks; heavy engagements of mills, because mill-owners were deluded by "bearish" prophecies into the belief that there would be a large crop; the small stock of raw material on hand at the opening of the season on September 1st; the consequently great demand of mills upon a new crop; adverse climatic conditions, which showed that the demand would not be met; confirmation of this position by the government crop report and the census report on ginnings; additional corroboration in the official reports of light receipts and the sudden falling off of the movement.

Opposed to these evidences are comparisons with other years—precedents for an unprecedented condition; the argument that the government reports, both for the Bureau of Statistics and the Census, were untrustworthy; the declaration that the South could not be relied upon for accurate advices concerning its own staple; and individual prophecies of large crops.

Weighing the evidence on both sides, the disinterested observer can hardly avoid the conclusion that natural and unusual causes are responsible for the present price of cotton. Manipulation could not have taken the tremendous output of the South and maintained its price on an artificially high scale. No group of speculators that could be formed could sustain manipulation on so gigantic a scale. At least $500,000,000 would have been required for such an undertaking, if it had been put into operation at the time prices began to rise.

The present price of cotton is the result of the pressing demand for the staple and the inadequate supply—in other words the inherent strength of the market and the working of the laws of trade. As manipulation could not unduly raise the price of cotton, neither can manipulation lower it. The staple has "bulled" itself, and neither "bulls" nor "bears" have been more than puppets in the game played by King Cotton.

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